



P.O. Box 2749
Sacramento, CA 95812-2749
Telecommunications Device for the Deaf - (916) 795-3240
(916) 795-3400; FAX (916) 795-3363

June 19, 2006

AGENDA ITEM 7a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Securities Lending Annual Review
- II. PROGRAM:** Securities Lending
- III. RECOMMENDATION:** Approval of the continuation of Metropolitan West Securities, LLC contract #95-132 and State Street Bank & Trust Company's contract #95-196.

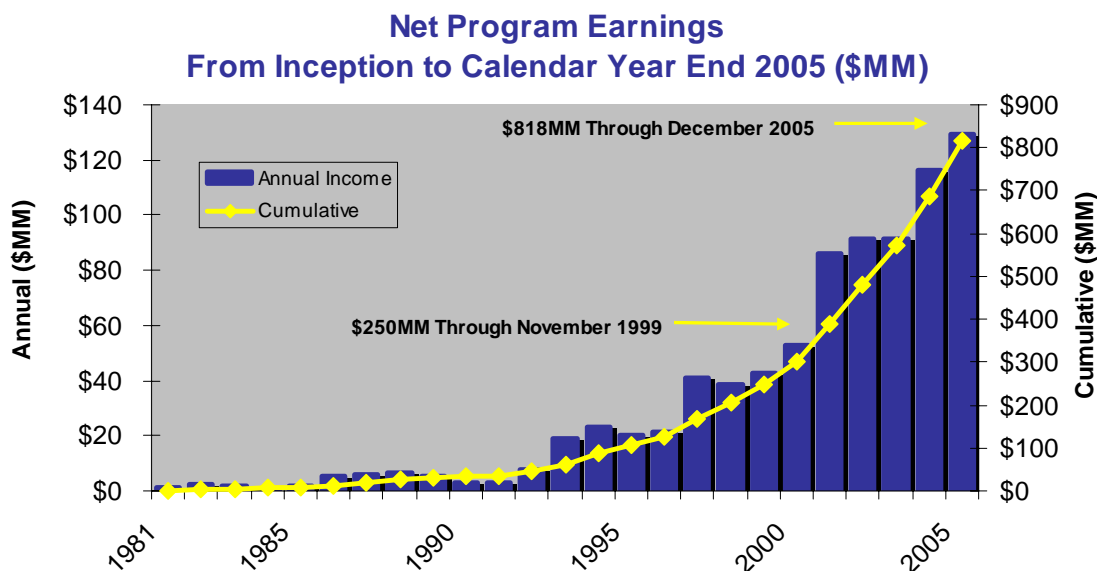
The closing of the sale of eSecLending is an information item and included as attachment 3.

IV. ANALYSIS:

A. Program Summary Statistics

Earnings for the year ending March 31, 2006, are presented to the Investment Committee for information.

Asset Class	Average Lendable Assets (\$ 000)	Average % on Loan	Net Margin (Annualized)	Net Income to CalPERS (\$ 000)
Global Equities	\$102,898,173	20.27%	45 bp	\$93,010
Global Fixed Income	\$29,798,702	50.58%	24 bp	\$36,370
Total Program	\$132,696,875			\$129,380



B. Contract Background

A Securities Lending Request for Proposal (RFP) was issued in May 1995 for lending U.S. Government, international fixed income and international equity securities. On September 18, 1995, the Investment Committee selected Metropolitan West Securities LLC (MetWest) and State Street Bank & Trust Company (SSB) to provide securities lending services for U.S. Government, international fixed income and international equity securities.

Met West's contract for international fixed income, U.S. Treasuries, domestic convertibles, domestic equity and domestic corporate fixed income (contract #95-132) and SSB's contract for international equity and international fixed income (contract #95-196) are without defined duration and subject to an annual review by the Investment Committee to determine whether the contract should be continued.

C. Staff Contract Recommendation

Overall, Staff is satisfied with the level of service, performance return, and responsiveness of MetWest and SSB. Based on the reviews provided in Attachments 1 and 2, Staff recommends continuation of the contract #95-132 with MetWest and #95-196 with SSB. Attachments 1 and 2 provide a review of the performance of MetWest and SSB, respectively.

V. STRATEGIC PLAN:

This program contributes to the achievement of Goal VIII of the Strategic Plan by providing low risk incremental returns to the Fund.

VI. RESULTS/COSTS:

The securities lending program generated \$129.4 million of earnings for the year ended March 31, 2006. The average market value of securities on loan in the lending program for the year ended March 31, 2006 was \$35.9 billion.

Daniel Kiefer
Portfolio Manager

Curtis D. Ishii
Senior Investment Officer

Anne Stausboll
Assistant Executive Officer

Russell Read
Chief Investment Officer